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ABSTRACT

As part of a review of California's strategy for helping recipients of Aid to Families with Dependent Children (AFDC) find jobs through the Work Incentive Program (WIN), eight demonstration programs were analyzed. There were four major findings. First, the Department of Social Services (DSS), which targets AFDC recipients with recent job experience for WIN employment and training services, should instead target AFDC recipients who lack recent work experience. To that end, legislation is needed to redesign State employment and training programs. Furthermore, increases in participant earnings, not placement rates, should be made the primary measure of the success of employment programs. Second, the most cost-effective services are job search and skill training services. Third, State and local coordination of WIN and Job Training Partnership Act services is essential if their impact on increasing participant earnings and reducing AFDC is to be maximized. Local WIN managers should be given responsibility for determining the types of services provided locally, and legislation should be created that requires DSS to develop guidelines and procedures for supplying local managers with the information needed to determine the types of services appropriate to different economic conditions. And fourth, the two primary goals of the WIN program are to reduce welfare dependency by increasing the earning power of AFDC recipients and to reduce AFDC grant expenditures. To address both goals, a two-tiered strategy is required. (KH)

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JANUARY 1985

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INTRODUCTION

This report reviews the effectiveness of the Work Incentive (WIN) program, which is designed to help recipients of Aid to Families with Dependent Children (AFDC) find jobs.

The WIN program was created by the federal government in 1967. Since establishing the program, the federal government has funded numerous evaluations of the services provided under the program. The results of these studies, however, are rarely discussed in connection with legislative proposals that would establish or modify employment programs serving AFDC recipients.

We reviewed eight of these evaluations in order to provide the Legislature with information on the effectiveness of various employment and training services provided to AFDC recipients. Specifically, we reviewed the available research for the purpose of answering the following four questions:

- Which AFDC recipients should be targeted for WIN services?
- What types of WIN services should be provided to AFDC recipients?
- To what extent should local political and economic factors be taken into account as part of the state's WIN strategy?
- How can the WIN program reduce welfare dependency and AFDC grant costs?

We believe that answers to these questions will help the Legislature maximize the positive impact of employment services provided by the WIN program to AFDC recipients.

This report was prepared by Paul Warren under the supervision of Hadley Johnson. The report was typed by Kathi Williams.

EXECUTIVE SUMMARY

This report reviews the state's strategy for helping recipients of Aid to Families with Dependent Children (AFDC) find jobs through the Work Incentive (WIN) program. As part of this review, we analyzed the results of eight demonstration programs that were set up to evaluate the effectiveness of various types of employment and training services provided by the WIN program. The results of the demonstration programs provided us with a basis for answering four questions that bear on the effectiveness of the state's WIN strategy.

Which AFDC Recipients Should be Targeted for WIN Services?

The Department of Social Services (DSS) targets AFDC recipients who have recent job experience (primarily recipients of AFDC-Unemployed Parent [AFDC-U]) for WIN employment and training services. According to the department, targeting recipients with recent job experience (1) enables the state to help the largest possible number of AFDC recipients find jobs and (2) generates the largest possible amount of AFDC grant savings.

Based on the findings from the demonstration programs mentioned above, we conclude that DSS is targeting the wrong recipients for WIN services. These findings indicate that the impact of WIN services is maximized when they are provided to AFDC recipients who do not have recent work experience (that is, recipients who have not worked in the past two years). In fact, the state's current targeting strategy may actually minimize the positive effect of WIN services since the research conducted to date finds that individuals with recent job histories do not benefit from employment and training services.

One of the main reasons why the department has chosen to target services on the "wrong" recipients is that the department measures the success of employment and training programs in terms of placement rates--the percentage of WIN participants who find jobs. The use of placement rates encourages staff to serve recipients with recent job experience precisely because they are easier to place in a job, and may not require many services. We find, however, that placement rates do not adequately measure the benefits individuals derive from WIN services, for two reasons. First, the mere fact that a person found a job does not mean that the employment program had a positive impact on the training recipient. This is because many job-ready persons who receive employment services would have gotten a job without those services. Second, placement rates do not allow the Legislature to compare the magnitude of the impact that employment services have on participants.

Thus, to the extent placement rates are used as the measure of success, WIN services will be targeted on those most likely to find jobs (with or without WIN's help), rather than on those who can benefit the most from these services.

Because the state's strategy does not effectively target WIN funds, we recommend enactment of legislation to redesign state employment and training programs for welfare recipients so that first priority for services is given to recipients who have not worked in the previous two years. In addition, we recommend that the legislation prohibit the use of placement rates as the measure of success for employment and training programs and, instead, require that increases in participant earnings be the primary performance measure.

What Types of Services Should the State's WIN Program Provide?

In 1984-85, California budgeted $39.7 million in state and federal funds for employment and training services specifically for AFDC recipients. Of this amount, $38.0 million is spent on job search training through the WIN program and the Employment Preparation program (EPP). The remaining $1.7 million funds two pilot training programs, the California Welfare Employment Skills Training Act (CWESTA), and the Supported Work program.

In addition to these funds, AFDC recipients receive a significant amount of skill training--in the form of both classroom and on-the-job training--through the Job Training Partnership Act (JTPA).

The eight evaluations that serve as the basis for this report found that job search training and skill training along the lines provided by the WIN, EPP, and JTPA programs resulted in the largest sustained increases in earnings for AFDC recipients. The increase in participants' income, however, did not translate into grant savings. This is because certain deductions from earned income enable AFDC recipients to increase their earnings without lowering the grants to which they are entitled. Recently, the federal government acted to limit the length of time during which these deductions are available to AFDC recipients. This may increase the amount of grant savings achieved by job search training and skill training services.

Need to Review Current Supported Work and Job Placement Programs. The empirical research on employment and training services conducted to date indicates that some services furnished by existing state programs are not cost-effective. Specifically, the cost of providing supported work and

job placement services is greater than the increases in participant earnings and grant savings that result from these services. In 1983-84, the state spent $9.3 million from the General Fund for supported work and job placement services. Specifically, the Job Agent and Service Center programs provide placement services to disadvantaged individuals. The Supported Work program is currently testing the supported work concept in California. The empirical evaluations and previous reviews of the performance of these programs indicate that they do not help disadvantaged individuals find jobs in a cost-effective manner. Because the programs have changed somewhat since these performance reviews were conducted, however, we are unable to assess the effectiveness of the programs in their current form. We believe the funds committed to these programs could be used in a more effective manner to help low-income individuals find jobs and obtain additional job skills. Therefore, in order to provide the Legislature with an assessment of the services provided by these programs, we recommend EDD conduct in-depth evaluations of the Job Agent, Service Center, and Supported Work programs. We further recommend that this study include an assessment of the effectiveness of these programs relative to the benefits of job search services and classroom, on-the-job, or other skill training services.

CWESTA Needs to be Redesigned. The CWESTA program is testing the use of fixed-rate performance contracts as a method for reimbursing training contractors. Under CWESTA, providers are reimbursed for each participant they place in a job. By linking profits to placement rates, CWESTA encourages contractors to provide services to individuals who are job-ready. As a result, recipients lacking recent job experience probably

will not receive CWESTA training. As the eight evaluations of employment and training services clearly found, however, providing services to individuals who lack recent job experience results in the largest income gains to participants. Therefore, in order to ensure that CWESTA training is provided to individuals who are likely to benefit most from such training, we recommend the enactment of legislation modifying the program's reimbursement mechanism so that increases in recipient income--not placement rates--is the basis for reimbursing training providers.

What Role Should Local Economic and Political Conditions Play in the State's WIN Strategy?

The success of the WIN program is affected by economic and political conditions at the local level. For example, local business and government leaders affect the success of local WIN programs because they design local JTPA training programs that provide employment services to AFDC recipients. In order for the WIN program to maximize its effectiveness, local officials must understand and cooperate with the state in targeting employment and training services on AFDC recipients. Our review of the JTPA programs suggests that, like the current WIN program, local JTPA programs tend to target job-ready AFDC recipients for services.

Coordination with JTPA Essential. Currently, there is no formal coordination between local WIN offices and JTPA programs in providing services to AFDC recipients. This is unfortunate because effective local coordination would result in significant program benefits. First, the impact of the training offered by each program would be enhanced if it were targeted on the same group--AFDC recipients who lack recent job experience. Second, coordination offers an opportunity to eliminate potential duplication of services provided by the two programs. By eliminating

duplication, better coordination would make additional funds available for training services to more recipients.

Therefore, in order to maximize the positive impact of available training funds on AFDC recipients, we recommend the enactment of legislation requiring local WIN offices to enter into formal agreements with local JTPA programs calling for (1) AFDC recipients lacking recent job experience to be given the highest priority for employment and training services furnished by both programs and (2) elimination of those intake, assessment, and training activities that are duplicative.

Increase Local Autonomy Over the Types of WIN Services Provided. Local economic conditions also directly affect the success of local WIN programs in helping recipients find jobs. The available research conducted to date indicates that job opportunities for AFDC recipients are extremely limited during times of high unemployment. The current WIN plan, however, ignores local economic conditions as a factor in the state's WIN strategy. In fact, the Department of Social Services plans to require AFDC-U recipients to participate in job search workshops and a subsequent supervised job search, regardless of whether suitable job opportunities exist within the local labor market. Moreover, local WIN managers will have no authority to alter the types of services provided to participants; the authority for such decisions will be retained by the central DSS office in Sacramento.

The state's WIN strategy should be flexible enough to adjust to local labor market conditions. One way of adapting this strategy to local conditions is to allow local WIN offices to alter the mix of job search and skill training services offered to participants. In areas of high

unemployment, for example, local WIN offices could direct funds away from job search services and towards skill training.

If local programs are to accommodate changing economic conditions, local program administrators must have responsibility for and authority over the types of employment and training services provided at the local level. Clearly, the needs of individual local labor markets cannot adequately be assessed from the central office in Sacramento.

Therefore, in order to increase the responsiveness of WIN services to local economic conditions, we recommend enactment of legislation giving local WIN managers responsibility for determining the types of services to be provided locally. We further recommend the enactment of legislation requiring DSS to develop guidelines and procedures that provide local managers with the information needed to determine the appropriate types of services to provide under different economic conditions.

How Can the WIN Program Achieve Both Reduced Welfare Dependency and Increased Grant Savings?

Like most programs, the WIN program could be administered to achieve different (and perhaps conflicting) goals. Our review of the literature on the program has turned up two primary goals. These goals are (1) to reduce welfare dependency by increasing the earning power of AFDC recipients and (2) to reduce AFDC grant expenditures. Based on our review, we conclude that a two-tiered approach is required to achieve both goals.

On the one hand, job search and skill training represent the most effective means to increase the earnings of AFDC-Family Group (AFDC-FG) recipients. It appears, however, that these increases in income may not translate into AFDC grant savings. On the other hand, requiring AFDC-U recipients to participate in work experience programs results in

significant grant savings. These grant savings, however, do not reflect an increase in recipients' ability to be self-supporting.

This division between goals, recipients, and services suggest that the twin goals of the WIN program cannot be achieved by providing a single type of service to AFDC recipients. In order to achieve both goals, the state must provide the right type of services to the right group of recipients.

At this time, we do not recommend that the state institute mandatory work experience programs for AFDC-U families, for two reasons. First, we do not know what happens to families terminated from aid due to program-related sanctions. Second, work experience services do not appear to generate a sufficient amount of grant savings to offset the cost of providing the services. The final report from the San Diego Work Experience program will provide additional information on the cost-effectiveness of work experience programs in California.

CHAPTER I

SCOPE OF THE STUDY

The Work Incentive (WIN) program furnishes employment and training services to recipients of Aid to Families with Dependent Children (AFDC) benefits. This chapter provides an overview of the WIN program in order to lay the foundation for a detailed examination of the state's strategy for providing employment and training services to AFDC recipients through the WIN program. Specifically, this chapter:

- Describes how the WIN program is administered in California.
- Discusses the goals of the WIN program.
- Discusses the methods available for measuring the success of the WIN program in achieving its goals.
- Raises four questions, the answers to which should help the Legislature identify the best strategy for achieving the goals of the WIN program. (These questions are addressed in subsequent chapters.)

Throughout this report, we use the terms "employment and training services" and "employment services" interchangeably, except where we expressly differentiate between them.

The Current WIN Program

The WIN program was created by Congress in 1967 in order to help AFDC recipients find jobs and thereby become self-supporting. Since that time, the program has provided a variety of employment and training services to participants. In 1983-84, the Employment Development

Department (EDD) spent $36.4 million ($30.6 million in federal funds and $5.8 million from the General Fund) to provide these services to about 46,000 new AFDC recipients.

The state's WIN program currently is in transition. In the past, the EDD was responsible for the design and administration of the program in California. Recently, however, the state began participating in the federal WIN Demonstration program, causing a shift in administrative responsibility for the state's WIN program from EDD to the Department of Social Services (DSS). As the single state agency responsible for the WIN program, the DSS contracts with county welfare departments and EDD for the provision of employment services. It also issues policy and procedure guidelines and regulations directing the focus of local programs.

In general, the purpose of the demonstration is to reduce errors in the administration of the AFDC program by allowing local welfare departments, instead of local EDD offices, to administer the WIN program. Shifting administrative responsibility for the WIN program to county welfare offices will concentrate decision-making authority for the AFDC and WIN programs at the county level. The DSS believes that this reorganization will reduce the number of errors previously made because of miscommunication between EDD and the counties. To accomplish this goal, the demonstration program calls for county welfare departments to register recipients for WIN. In addition, the agencies will decide which recipients will receive employment or training services. Those recipients targeted for services will be referred to local EDD offices, where appropriate services will be provided. Prior to the demonstration program, the EDD registered recipients for the WIN program and decided which registrants would receive services.

What are the Goals of the WIN Program?

Like most programs, the WIN program could be administered to achieve different (and perhaps conflicting) goals. Our review of the literature on the program has turned up two primary goals that WIN could be directed to achieve. One of these goals is to reduce the dependency of AFDC recipients on government aid by helping them to find jobs. This is the stated goal of California's WIN program--"to reduce welfare dependency by helping participants find and retain unsubsidized jobs."[1] The other goal is to reduce AFDC grant costs.

It is possible that the state can achieve both of these goals--reduced welfare dependency and increased grant savings--if it employs the proper strategy. For example, if the services provided under WIN increase the earnings of an AFDC family by helping it to find jobs, that family will be less dependent on government aid for its well-being, and this may allow a reduction in grant costs. On the other hand, the provision of certain employment services may achieve only one of these two goals. For example, employment programs that discourage eligible individuals from applying for AFDC benefits may result in grant savings, but may not increase their ability to be self-supporting.

How Should We Measure the Success of the WIN Program In Meeting Its Goals?

While it is relatively easy to determine if employment services result in grant savings, it is more difficult to measure the extent to which such services reduce welfare dependency. In fact, much has been

1. Employment Development Department, Welfare Employment Programs: 1982-83 Report to the Legislature.

written about the best way of measuring the success of employment services in reducing welfare dependency. Based on our review, we conclude that increases in an individual's earnings are the best measure of whether employment and training services successfully reduce welfare dependency. This is because earnings directly reflect a person's ability to find and keep a job. Therefore, if employment and training services result in increased participant earnings, they also should increase the possibility that the individual will be able to get off aid and become self-supporting.

Employment services can lead to increased earnings in two different ways. First, employment services can enable the recipient to work more hours each week. This would be the case if these services allowed a worker to shift from unemployment to full-time or part-time employment, or from part-time to full-time employment. Second, employment services can lead to increased earnings by enabling the recipient to obtain a job paying higher wages.

What is the Best Strategy for Achieving the Goals of the WIN Program?

For the purposes of this report, we have assumed that the goals of the state's WIN program are twofold: (1) to reduce welfare dependency and (2) to increase AFDC grant savings. As noted above, it is possible that a single strategy will achieve both goals simultaneously. If that is the case, then the Legislature need not choose between the two goals. It is also possible, however, that different strategies would be needed to achieve both goals. In that case, the Legislature would have to decide whether to pursue both goals independently, or to designate one goal as being more important and offer a package of services designed to achieve that goal.

In order to determine which strategies most effectively achieve the goals of the WIN program, we will focus on four questions. The answers to these questions could provide the general outline for an employment and training strategy that would more effectively serve welfare recipients. These four questions are as follows:

- Which Recipients Should Receive Services? The most basic element of a WIN strategy is the designation of a target group for the receipt of services. In Chapter 2, we identify the groups of recipients that, in the past, have experienced the largest gains from employment and training services.
- What Types of Services Should the State Provide? The second basic element of a WIN strategy is deciding which services will most benefit the target group. In Chapter 3, we discuss the relative effectiveness of various types of employment and training services.
- What Role Should Local Labor Market Conditions Play in the State's WIN Strategy? The WIN program operates within the context of local economic, business, and political environments. Chapter 4 discusses how the WIN strategy should account for these forces.
- How Can the State Reduce Welfare Dependency and Increase Grant Savings? In Chapter 5, we again discuss the potential conflicts between the two goals of the WIN program, this time within the context of the findings from the previous sections.

Demonstration Program Results Will Guide Our Study

To date, there has been extensive research on the effectiveness of the WIN program. We have reviewed the available research data in order to develop answers to the four questions listed above.

Except where noted, all of the findings relied on in this study are based on research involving randomly assigned test and control groups that was designed to measure the effect of services on participant behavior. In general, these demonstration projects provided employment services to participants in the test group, but no services to the control group.

We have limited our review to demonstration projects with randomly assigned test and control groups because such a design helps to ensure that the results are impartial and unbiased. While anecdotal evidence may illustrate a finding more clearly than a page full of statistics, citing one person's experience may not represent the experience of most participants. While using only the results from test and control group demonstrations reduces the number of studies available for our review, we believe that it is appropriate to do so because these studies provide a more accurate and unbiased basis on which to draw conclusions.

Refugee Programs Not Discussed

This report does not discuss the impact of WIN services on refugees for two reasons. First, the WIN program generally does not provide services to refugees. Instead, the employment and training needs of refugees are served primarily through special refugee programs administered by DSS. Second, this paper is intended to review the success of WIN employment and training strategies, using the results of specified demonstration programs. Unfortunately, no studies of employment and training services going to refugees have been conducted to date.

Our decision to exclude the refugee population from this review does not mean that we believe the needs of these persons are less important than those of other AFDC recipients. On the contrary, we believe their needs

are compelling. Lacking any empirical data on state employment programs for refugees, however, we simply are not able to evaluate the effectiveness of different models for serving these persons.

CHAPTER II

WHICH AFDC RECIPIENTS SHOULD BE TARGETED FOR WIN SERVICES?

In this chapter, we address the question of which AFDC recipients should receive WIN services. In general, California targets WIN services on AFDC recipients who have recent job experience. Our review of the research on employment services, conducted to date, however, leads us to conclude that the current state strategy provides services to the wrong group of AFDC recipients. These research findings suggest that if the state wants to maximize the impact of WIN services on the earnings of AFDC recipients, it should provide services primarily to those recipients who lack recent job experience, instead of recipients who were recently employed.

The Need for Targeting WIN Services

If the WIN program had unlimited funds, it could provide employment and training services to all AFDC recipients. Because resources are limited, however, services can be provided to only part of the eligible population. This, in turn, requires the state to decide which groups of AFDC recipients should receive services and which groups should not. In 1983-84, for example, EDD provided services to 46,000 AFDC recipients, which constitutes about 8.0 percent of all individuals eligible for WIN assistance during the year. Therefore, due to limited resources, EDD must choose which AFDC recipients receive WIN services.

The classic model of targeting was devised to help battlefield doctors decide which wounded soldiers to assist first, and reflects the

concept of "triage." The triage approach calls for doctors to divide the group of wounded into three categories: those who are in no danger of dying; those who cannot be saved from dying; and those who will live only if they receive prompt medical attention. Medical help is then given to the wounded in this last group because these men will benefit the most from such help. In the same way, the state can maximize the impact of WIN services by providing employment and training assistance to those recipients who will benefit the most from such assistance.

Current State Strategy for Targeting WIN Services

Federal law requires that all AFDC recipients and applicants, with certain exceptions, register to participate in the WIN program. The most important exception covers single mothers with children below the age of six. Other AFDC recipients may be exempted from WIN participation if they (1) live too far from a WIN office, (2) have health problems, or (3) find that child care is not available.

Within the group of WIN registrants, the Department of Social Services (DSS) targets WIN services, using the following priorities:

1. Heads of families receiving AFDC benefits that were recently approved for aid. These individuals are primarily male heads of families receiving aid under the AFDC-Unemployed Parent (AFDC-U) program who have recent job experience.

2. Heads of AFDC families who volunteer for services.

3. All other mandatory WIN recipients.

Because the WIN program is not able to provide services to all WIN registrants, some registrants are placed in an unassigned pool. Unless these recipients subsequently volunteer for services, they probably will not receive any services under the WIN program.

According to the DSS, the state's WIN program has two goals: (1) to help the maximum number of AFDC recipients find a job and (2) to achieve the maximum AFDC grant savings by providing employment services to welfare recipients. The DSS believes that both goals can be achieved by the same strategy: give AFDC-U recipients who have recent job experience priority in receiving employment services.

According to the DSS, this strategy maximizes the number of AFDC recipients who receive help in finding a job. Specifically, by targeting employment services to individuals who have recent job experience, the state can increase the number of recipients who will find a job at the lowest possible cost, thereby allowing the limited funds available to serve the maximum number of recipients. The DSS also believes this strategy maximizes grant savings because it results in relatively high placement rates, thereby reducing the AFDC grants to families with employed parents.

Demonstration Program Results: AFDC Recipients With No Recent Job Experience Benefit the Most From WIN Services

The research findings reviewed in the course of this study suggest that California's strategy of targeting WIN services on AFDC recipients with recent job experience may not be the most cost-effective. In general, the research findings show that AFDC recipients with little or no recent job histories achieve the largest increases in earnings as a result of WIN services. Conversely, individuals with recent job histories do not experience increases in earnings that are, on average, as large as individuals who have not worked during the previous two years.

Table 1 illustrates this point by comparing the increases in income resulting from three types of training provided to all participants and participants who had not worked during the two years prior to training. The

gains in income for individuals without recent job experience are much larger--from 71 percent to 144 percent larger--than the average gain in income experienced by all participants receiving the same service. Table 1 clearly suggests that the most cost-effective strategy for the state to follow in allocating limited WIN funding is to target employment services on individuals who have not worked recently.

Table 1

Training Benefits Those Without Recent Job Experience[a]

Type of Training	Average Annual Increase in Earnings		
	All Participants	Participants Without Recent Job Experience	Percent Difference
Job Search (women)	$575	$1,400	144%
Skill Training:[b]			
Women	1,300	2,500	92
Men	200	4,500	--[c]
Supported Work (women)	700	1,200	71

a. Appendix B lists the studies that we used to determine the increase in earnings.
b. "Skill" training includes on-the-job training, classroom training, and voluntary work experience programs.
c. Results are inconclusive, due to the small number of men receiving training who did not have recent job experience.

Which Recipients Do Not Have Recent Job Experience?

Because WIN services have been found to be most effective when they are provided to AFDC recipients who have no recent job experience, it is important to determine who these recipients are so that they may be given top priority for WIN services.

Two primary groups make up the AFDC population: (1) female-headed families who primarily receive aid under the AFDC-Family Group (AFDC-FG) program (they constitute roughly 80 percent of all AFDC caseloads) and (2) male-headed families who primarily receive aid under the AFDC-U program. Within both of these groups, there are recipients who have no recent job experience. Because of the fundamental differences between these two groups, we will discuss their employment histories separately.

Women Receiving AFDC-FG. In general, most women who receive AFDC-FG do not have recent connections to the labor force. In fact, a national study found that only 15 percent of new AFDC-FG cases began to receive aid as a result of a fall in the family's earnings.[1] Instead, most of the new Family Group cases began to receive aid because of a change in the woman's marital status. Specifically, the study found that 45 percent of new cases began following divorce or separation that left a woman as head of the family. Another 30 percent of the cases began when a single woman became an unmarried mother.

The DSS does not collect data on the reasons why women begin to receive AFDC in California. We do know, however, that very few AFDC-FG families--5.6 percent--report earnings while on aid. It is not clear whether this low rate of employment reflects weak incentives for AFDC-FG recipients to work or whether it reflects the few skills these women have to sell in the job market. Without additional information on AFDC-FG recipients, we cannot draw any further conclusions about these recipients' employment situation.

1. Ellwood and Bane, Dynamics of Dependence: The Routes to Self-Sufficiency (Cambridge, MA: Urban Systems Research and Engineering, Inc., June 1983).

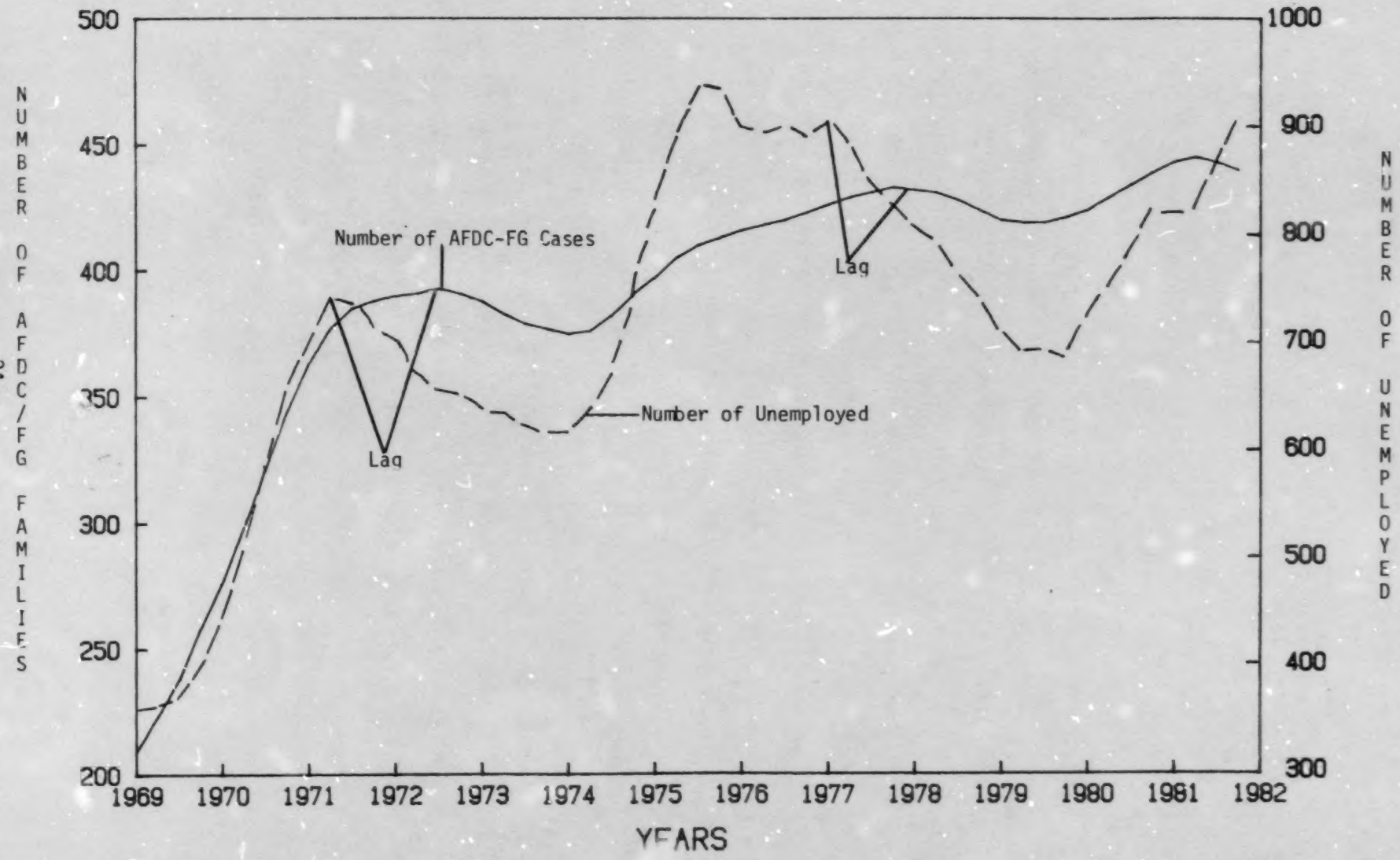
It is reasonably clear from the available evidence, however, that women on aid constitute the labor force's least desired, most disadvantaged group of unemployed persons. For example, the data show that female AFDC recipients do not benefit significantly from improvements in the economy. Chart 1 illustrates the relationship between the Family Group caseloads and the number of unemployed persons. The chart shows that although the Family Group caseloads increase and decrease with the number of unemployed, the caseload changes are relatively small. This pattern suggests that, while the availability of employment opportunities affects AFDC-FG recipients' ability to get off welfare, other factors are more important in affecting their chances of finding a job. Some of these other factors may include low skill levels and the lack of available transportation or child care.

In addition, the available data show that it takes about a year before improvements in the economy affect the employment status of AFDC-FG recipients. Chart 1 shows that when unemployment goes up, AFDC-FG caseloads immediately increase. When unemployment declines, however, AFDC-FG caseloads continue to <u>increase</u> for about one year. This one-year lag between changes in unemployment and AFDC-FG caseloads reflects the persistently poor prospects that these recipients have in the job market. As employment conditions improve for the general public, employment opportunities for AFDC-FG recipients remain depressed. When unemployment increases, AFDC-FG caseloads follow suit with little or no lag. This trend is typical of the "last hired, first fired" phenomena, common to many low-skilled workers.

<u>Long-Term AFDC-FG Recipients</u>. The AFDC-FG caseload is not homogenous, however. Some AFDC-FG recipients remain on aid for a long

Chart 1

AFDC-FG Caseloads Indirectly
Affected by Unemployment
(all figures in thousands)



time, while other recipients receive assistance for only a short period of time. According to a national study, one-half of AFDC-FG recipients stay on aid for less than two years. The study considers these individuals to be short-term AFDC-FG recipients. The other half of the AFDC-FG recipients--the long-term recipients--stay on aid for more than two years. These long-term recipients stay on aid for an average of six years.

The characteristics of long-term recipients suggest that they have the fewest job skills of all recipients, and therefore have a greater need for employment assistance than the short-term recipient. In particular, long-term recipients (1) have several children and (2) never graduated from high school. The study found that because of their minimal job skills, these women leave welfare primarily by getting married, instead of by increasing their income.

The national study paints a different picture for short-term recipients. These women stay on aid for less than two years and leave the AFDC program primarily by increasing their income, although some get off aid by getting married. These women are more likely than long-term recipients to have high school diplomas.

Conclusion. From the above, we conclude that long-term AFDC-FG recipients have the most to gain from WIN services. Most of these women do not have recent job experience and are not likely to find a job on their own. In contrast, short-term AFDC-FG recipients have a much higher probability of finding employment without assistance. Accordingly, we believe the Legislature can improve the effectiveness of the state's WIN program by assigning the highest priority for WIN services to long-term AFDC-FG recipients who lack recent job experience.

Men on AFDC-U. The employment situation of AFDC-U recipients is much different from that of AFDC-FG recipients. While AFDC-FG recipients have weak ties to the labor market, AFDC-U recipients--primarily men--have strong ties to the job market. This close link to past job experience is demonstrated in two ways. First, many AFDC-U recipients also receive Unemployment Insurance benefits, which are available only to individuals who recently became unemployed.

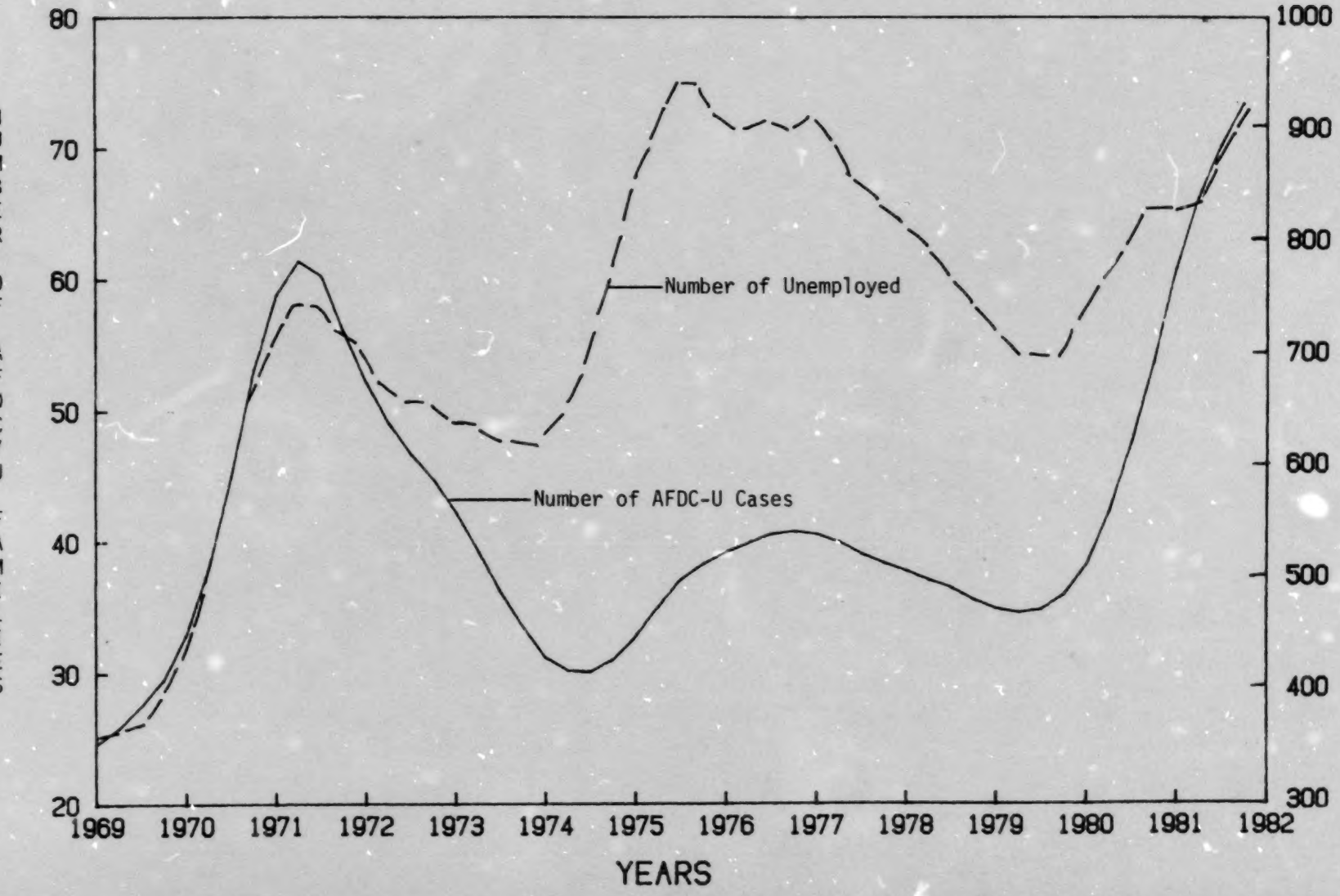
Second, male AFDC recipients benefit significantly from improvements in the economy. Chart 2 shows that, between 1969 and 1982, the AFDC-U caseloads increased and decreased significantly as the number of unemployed workers in California rose and fell. Between 1972 and 1974, for example, the number of unemployed workers declined by 25 percent, from 808,000 persons to 610,000 persons. During this same period, AFDC-U caseloads were reduced by half, falling from 60,000 to 30,000 cases.

Moreover, male recipients do not experience a one-year lag between reductions in the unemployment rate and reductions in AFDC-U caseloads. Chart 2 shows that, when unemployment goes up, so do the AFDC-U caseloads. When unemployment decreases, so do the AFDC-U caseloads. This direct link between AFDC-U caseloads and unemployment is extremely significant; it indicates that the employment potential of most AFDC-U recipients is largely determined by the availability of jobs suited to their skills.

Long-Term AFDC-U Recipients. As with AFDC-FG recipients, there are long-term and short-term AFDC-U recipients. The DSS does not maintain data on the length of AFDC-U spells--that is, the length of time male-headed

Chart 2

AFDC-U Caseloads are Very
Sensitive to Unemployment
(all figures in thousands)



families had been on aid when the family stopped receiving assistance.[1] Nevertheless, by comparing available data for men and women, we estimate that more than 50 percent of AFDC-U families experience spells on aid lasting less than one year. This finding confirms that, for the large majority of men, welfare provides temporary income during periods of unemployment.

There are, however, AFDC-U recipients who remain on aid for lengthy periods. The research summarized in Table 1 suggests that like long-term AFDC-FG recipients, these persons are more likely to benefit from WIN services than short-term aid recipients.

Conclusion

Based on a review of the available research data, we conclude that long-term AFDC recipients--those who have not worked within the past two years--should be targeted for WIN services. This does not mean that the needs of other recipients should be ignored. On the contrary, all AFDC recipients should be encouraged to actively seek employment. In terms of using the limited funds available for employment services, however, the available evidence strongly suggests that these services have a greater impact when provided to men and women who do not have recent job experience.

Currently, the state does not effectively target employment services to those who will benefit the most from them. Indeed, by providing services primarily to AFDC-U recipients who recently qualified for aid, the

1. The DSS only collects data on the length of time current recipients have been receiving aid. These data, however, significantly under-report the number of short-term AFDC-U cases. This is because many of the short-term cases have come on and gone off aid before the data were collected.

state is targeting services to AFDC recipients who are essentially job-ready. This tends to minimize the effectiveness of WIN resources in helping AFDC recipients find jobs and become self-supporting. In terms of the triage analogy, the state's current strategy amounts to providing medical services to wounded soldiers who would survive even without medical attention.

The state targets job-ready AFDC-U recipients largely because the state measures the success of employment programs in terms of placement rates (that is, the percentage of participants placed in a job). Using placement rates as the primary performance measure encourages program staff to serve the job-ready because they are easier to place successfully in a job, compared to those who lack recent job experience.

The results of the demonstration programs find that the use of placement rates to measure performance under the WIN program encourages the state to serve the wrong target group. As one study comments:

> "Efforts focused on [the job-ready] may appear more successful but, in reality, make little difference in an underlying pattern of improvement. In contrast, programs targeted on those unlikely to find jobs on their own may look less successful but, in fact, result in major changes in behavior.... This study thus provides further confirmation that program operators will be misled if they use program placement rates as a measure of program impact."[1]

The use of placement rates to measure the success of employment programs is intuitively appealing. This is because placement rates tell us

1. Manpower Development Research Corporation, Job Search Strategies: Lessons from the WIN Laboratory (November, 1983).

how many participants found a job, which is, after all, one of the purposes of employment programs. Our analysis indicates, however, that placement rates do not adequately measure the success of employment programs, for several reasons. First, the mere fact that a person found a job does not mean that the employment program had a positive impact on the training recipient. This is because many job-ready persons who receive employment services would have gotten a job without those services. Thus, in these cases, placement-rate statistics give a false signal: they indicate success when, in fact, the program has had no discernable impact on participants.

Second, placement rates do not allow the Legislature to compare the magnitude of the impact that employment services have on participants. In contrast, the increase in earnings (expressed either in absolute dollars or percentages) measures the size of the impact that employment programs have on participants. This information, in turn, allows the Legislature to target services in a manner that maximizes the impact of these services.

Thus, to the extent that placement rates are used as the measure of success, WIN services will be targeted on those most likely to find jobs--with or without WIN's help--rather than on those who can benefit the most from these services. Because this strategy does not effectively target WIN resources, we recommend that legislation be enacted to redesign state employment and training programs for welfare recipients so that services are provided to recipients who have not worked during the previous two years. In addition, we recommend that the legislation prohibit the use of placement rates as the measure of success for employment and training programs and, instead, require that increases in participant earnings be the primary performance measure.

CHAPTER III

WHAT TYPES OF SERVICES SHOULD THE STATE'S WIN PROGRAM PROVIDE?

In this chapter, we consider what types of employment and training services the state should provide to WIN participants. In order to answer this question, we reviewed the findings from a number of demonstration programs that tested the effectiveness of various employment and training services provided to AFDC recipients, including (1) job search and placement services, (2) skill training, such as classroom and on-the-job training, (3) supported work, and (4) work experience.

The findings from these demonstrations lead us to conclude that the most cost-effective services offered under various employment and training programs are job search and skill training services.

Current Employment and Training Programs for AFDC Recipients

Table 2 lists those employment and training programs designed to help AFDC recipients in California find employment.

Table 2

California Provides Mostly Job Search Services
To AFDC Recipients; Training is
Provided Through JTPA

Program	Target Group	Services Provided	1984-85 Funding Level (millions)
STATE PROGRAMS:			
Work Incentive (WIN)	AFDC-U	Job search workshops and supportive services	$30.0
Employment Preparation (EPP)	AFDC-U	Job search workshops in seven counties	8.0
Supported Work Pilot	Long-Term AFDC-FG	Supervised work experience	0.9
California Welfare Employment Skills Training Act (CWFSTA) Pilot	None	Skill training	0.8
LOCAL PROGRAMS:			
Job Training Partnership Act (JTPA)	None	Skill training and supportive	--[a]
Total			$39.7

a. Amounts spent on services for AFDC recipients are not available. Local programs provide services to all low-income people, although they are required to serve AFDC recipients in proportion to their representation in the local low-income population.

Table 2 shows that job search workshops constitute the primary employment service provided to AFDC recipients. Specifically, the state spends $38.0 million, or 96 percent, of its employment and training funds on job search workshops. These workshops generally last three days and teach participants how to find job openings, how to interview for a job, and

other basic job search skills. After completing the workshop, participants are required to undergo 90 days of supervised job search, during which time they must contact a specified number of employers in search of a job.

In contrast to the $38 million provided for job search workshops, the state has earmarked only $1.7 million in 1984-85 specifically for training. State and federal funds support two pilot programs that provide training services: (1) the Supported Work program and (2) the California Welfare Employment Skills Training Act (CWESTA) program. In addition, an unknown amount of funds support training through the WIN program.

The Supported Work program is administered by the EDD and is intended to improve the productivity of participants by improving their work attitudes and habits. In a supported work program, long-term female AFDC recipients are employed in a subsidized job and paid wages based on their productivity. Participants "graduate" from their supported-work job to look for an unsubsidized job when their productivity increases to the point where they are considered to be employable.

The CWESTA pilot is testing the effect of using a fixed reimbursement rate to pay training providers. Under the fixed rate reimbursement mechanism, contractors are paid a specified amount for each trainee who finds a job. Contractors are not reimbursed for any trainee who does not find employment.

In addition to the two pilot programs, the state relies on the Job Training Partnership Act (JTPA) to provide training to AFDC recipients. Federal law requires local JTPA programs to provide training opportunities to AFDC recipients in proportion to their share of the community's low-income population. The DSS indicates that under the WIN demonstration

program, it will continue to rely upon JTPA to provide training services to AFDC recipients.

Demonstration Program Results

We reviewed the results of eight separate evaluations of employment and training services in order to determine the effectiveness of various types of services commonly provided to WIN participants. The results of our review are summarized in Table 3. The costs and benefits shown in the table are primarily derived from the demonstration program results. In two cases, however, we estimated the costs of the services provided using other appropriate data.

Table 3 shows that voluntary job search services and skill training (classroom, on-the-job, voluntary work experience training) result in the largest net benefits to recipients. Net benefits in this case are defined as benefits (increased earnings plus grant savings) less the cost of providing the services. The table shows that in the eight demonstration programs, job placement and supported work services were not found to provide cost-effective services. In addition, mandatory job search and work experience services were found not to result in net benefits. (The effectiveness of the mandatory programs in San Diego County are based on preliminary findings that are subject to change when the final report on this demonstration program is issued in February 1985.) The effectiveness of each individual service is briefly discussed below.

Job Placement. The purpose of job placement activities is to refer program participants to job openings for which they are qualified.

Table 3

Voluntary Job Search and Skill Training
Achieve Largest Net Benefits

Program[a]	Cost Per Trainee	Average Annual Increase In Earnings	Length of Time Benefits Continue	Reduction in Welfare Costs	Net Benefit[b]
Voluntary Programs					
Job Placement:					
All women	$300	None	Not significant	None	-$300
All men	300	None	Not significant	None	-300
Job Search:					
All women	350	$575	2 years	None	750
Without recent job experience	350	1,400	2 years	None	2,325
Skill Training:					
All women	2,400	1,300	3 to 5 years	None	1,735[c]
Without recent job experience	2,400	2,500	3 to 5 years	None	4,440[c]
All men	2,400	200	Not significant	None	-1,850[c]
Without recent job experience	2,400	4,500	Not significant	None	2,100[h]
Supported work:					
All women	5,600[d]	700	3 to 5 years	$775	-2,900[e]
Without recent job experience	5,600[d]	1,200	3 to 5 years	775	-1,540[e]
Mandatory Programs					
Work Experience:					
Massachusetts (men)	450		No significant effects		
Food stamp (women)[f]	50	185	3 months	37	172
" " (men)[f]	50	-150	3 months	23	-177
San Diego (women)[f]	750	-7	6 months	48	-668[g]
" " (men)[f]	750	8	6 months	198	-338[g]
Job Search:					
San Diego (women)	600	113	6 months	6	-362[g]
" " (men)	600	11	6 months	62	-454[g]

a. Appendix B lists the studies we used to determine the effectiveness of these services.
b. Net benefit is defined as the sum of increased earnings and welfare grant savings less the cost of the services. The increased earnings are discounted at a rate of 10 percent annually.
c. Net benefits assume that earnings increases last three years.
d. Estimated. Supported work costs are high because the program pays wages to participants.
e. Net benefits assume that increased earnings last three years; grant savings last one year.
f. Services provided to participants include job search training and work experience.
g. Results are preliminary. Net benefits assume that increases in earnings last one year; grant savings last one year.
h. Results are inconclusive due to the small number of men receiving training who did not have recent job experience.

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The results of research conducted to date indicate that job placement services do not result in earnings gains for recipients. In addition, because job placement services do not result in increased earnings for program participants, there are no corresponding grant savings associated with this type of service.

Job Search Services. Job search services differ from job placement services in that search services teach participants how to look for a job, rather than simply refer them to particular job openings.

Table 3 shows that job search services result in substantial long-term benefits for participants. These services especially help those who do not know how to look for jobs, or those who lack recent job experience. The higher earnings of job search participants were not due to higher hourly wages. Rather, they were due to the fact that recipients of job search services worked more hours than those individuals who did not receive such services. This suggests that job search services do not enable participants to find higher paying jobs, but instead help individuals locate jobs offering more hours of work. In addition, the gains in earnings of job search participants persisted for at least two years after program participation.

The increase in earnings experienced by women in this group did not translate into significant AFDC grant savings. This is largely because federal law allows AFDC recipients to deduct child care costs and a specified amount of earned income from their family income for purposes of determining the size of the AFDC grants to which they are entitled. Such exemptions enabled these women to increase their earnings without significantly lowering their AFDC grants.

Skill Training. Three types of training have long been offered under the WIN program: classroom training, on-the-job training, and voluntary work experience. Classroom training involves instruction, provided primarily in a classroom setting. Classroom training can offer training in vocational skills or basic education and language proficiency. On-the-job training provides vocational instruction while the participants work for an employer. Voluntary work experience permits individuals to attain job experience by voluntarily working for a public agency for up to 13 weeks.

Although the federal government continues to spend billions of dollars on skill training programs, it has never sponsored a test-and-control-group demonstration designed to determine the relative benefits yielded by these services. Instead, it has relied on simulated test and control groups in order to reach conclusions on the effectiveness of skill training services.

We reviewed the findings of two such simulations. In our judgment, both provide unbiased estimates of the costs and benefits of skill training programs targeted at low-income workers.

Both studies reached similar conclusions about the benefits of training, even though they assessed different programs (WIN and CETA). The studies concluded that skill training resulted in significant gains in participants' earnings lasting at least three to five years. In addition, the costs and benefits of all three types of skill training--classroom training, on-the-job training, and voluntary work experience--were similar. Classroom training seemed to achieve the highest increases in earnings, while on-the-job training resulted in somewhat lower increases. The

differences in the benefits between these services, however, were not considered to be significant.

The increases in earnings resulting from these training services stemmed largely from an increase in the number of hours worked, not from an increase in wages. Only one-fourth of the increases in earnings was due to higher wages. The remaining three-fourths of the increase was due to increases in the number of work hours. (Increases in work hours may reflect increased desire to find a job, increased ability to find and keep a job, or increased ability to find a full-time job rather than a part-time job.) The gains from this type of training appear to continue for at least three-to-five years. As with job search training, no significant grant savings resulted from skill training programs because of the income deductions permitted AFDC recipients.

Supported Work. Table 3 shows that the supported work programs resulted in negative net benefits. This is because the relatively high costs of these programs offset the gains in income and grant savings resulting from the provision of these services.

Although the supported work programs--which averaged nine months of services--did not result in a positive net benefit, they did result in significant increases in earnings for all long-term female AFDC recipients, with the largest gains being made by women with no recent work experience. For this group, the increases in earnings were due to increased wages, as well as increased work hours. In fact, 42 percent of the earnings increases associated with the supported work programs were due to increased wages. The remainder of the increase was the result of an increased number of hours worked.

The gains in earnings from supported work participation seemed to hold up over time. Specifically, these gains did not decline significantly after three years.

Supported work training also resulted in AFDC grant savings. This is because the earnings of supported work participants were either (1) large enough to make them ineligible for aid or (2) large enough to reduce the size of their AFDC grants. To a certain extent, the grant savings produced by the Supported Work program were larger than those attributed to other programs because supported work trainees had smaller child care expenses. Specifically, very few supported work participants had children under six years old who required full-time care. Instead, most trainees had children between the ages of six and twelve who only required some after-school attention. By targeting services to women with older children, the Supported Work program was able to limit deductions for child care costs, and therefore increase--relative to other programs--AFDC grant savings.

Mandatory Work Experience. In general, mandatory work experience programs require AFDC or Food Stamp recipients to work in assigned jobs for a specified number of hours each month in exchange for their benefits. The number of hours worked by each recipient is determined by dividing the family's monthly grant by the minimum wage.

It is somewhat difficult to evaluate work experience demonstration programs because the research findings reported to date either are preliminary or lack adequate supporting data. Our review of these findings, however, cause us to conclude, on a preliminary basis, that work experience programs do not result in significant gains in earnings to men. The benefits of work experience programs to women are mixed.

We reviewed two studies involving women in work experience programs: the Food Stamp Workfare program and the San Diego Work Experience program. Both programs also provided job search services to AFDC recipients before they entered the Work Experience component. The experiences of women in these two experiments were not consistent: the women in the Food Stamp experiment showed net gains in income and grant savings; the women in the San Diego Work Experience program showed no gains in earnings.

It is not clear why the results from the two programs are so different. One possible explanation is that the programs served different types of recipients. While the San Diego program served only AFDC recipients, the Food Stamp experiment involved both AFDC clients and non-AFDC recipients. In any event, until the final San Diego results are published, we cannot draw firm conclusions about the effectiveness of work experience programs for women.

The effect of work experience services on the earnings of men, however, seems clearer. These services did not translate into significant increases in earnings for male participants. One evaluation concluded that "work experience treatment made little difference since most job finders would have found work anyway, while the hard-core unemployables appear not to have been changed by their experience."[1]

Table 3 shows that mandatory work experience programs did produce grant savings. The grant savings, however, resulted not from increases in earnings of AFDC recipients, but rather from the sanctions applied to families whose head failed to participate in the program. For example,

1. Barry Friedman, et. al., An Evaluation of the Massachusetts Work Experience Program (Waltham, Massachusetts: Brandeis University, October 1980).

whenever the head of the household for an AFDC-U family failed to satisfactorily participate in the program, the entire family lost its grant. In contrast, the grant for an AFDC-FG family was reduced (but not eliminated) whenever the head of the household failed to satisfactorily participate in the program.

Grant Savings Under Current AFDC Rules May Be Higher

The studies summarized in Table 3 found that employment and training services provided to voluntary program participants did not bring about significant reductions in the AFDC grants going to these participants. This is largely because allowable deductions--such as the $30-and-one-third earned income deduction--enabled AFDC recipients to increase their earnings without lowering their AFDC grants. Since those studies were completed, the federal government has limited the length of time that these deductions are available to AFDC recipients. Currently, the $30 deduction is limited to 12 months and the one-third deduction for the remaining earned income is limited to 4 months. At the end of the 4- and 12-month periods, earnings are fully deducted from the family's grant on a dollar-for-dollar basis.

These limits on earned income may affect the impact of employment and training services on AFDC grants in two ways. First, limiting the earned income deduction may reduce the incentives for AFDC recipients to work. This is because after the 4- and 12-month periods, working while on aid will not increase the family's net income. To the extent that this limit on the earned income deduction reduces the incentive of the AFDC recipient to work, the impact of employment and training services on earnings may be smaller than what has been found by the demonstration programs.

Second, increases in earnings that can be attributed to these employment and training services are now more likely to generate grant savings. This is because the new federal rules do not permit AFDC recipients to take the $30-and-one-third deductions indefinitely. Instead, increases in earnings will result in a dollar-for-dollar reduction in the family's grant and therefore result in lower grant payments after the 4- and 12-month periods. Because the federal changes were implemented recently, we have no data showing the impact of these changes on an individual's incentive to work or on the level of grant savings achieved by WIN training programs.

Mandatory vs. Voluntary Participation in Employment Programs

Table 3 allows us to compare the effectiveness of job search services provided to mandatory and voluntary program participants. The table suggests that job search services result in larger increases in earnings for voluntary participants than for mandatory participants. For example, women who volunteered for job search services experienced an annual increase in earnings averaging $575, while women who were required to participate in job search training experienced an increase in earnings of $113. This suggests that voluntary programs may elicit larger average gains in earnings for participants. The final results from the San Diego experiment may shed additional light on the relative effectiveness of voluntary and mandatory programs.

Recommendations

CWESTA Needs to be Redesigned. As discussed above, the CWESTA program is testing the use of fixed-rate performance contracts as a method for reimbursing training contractors. Under CWESTA, providers are reimbursed based on their placement rate. As we discussed in Chapter 2,

this emphasis on placement rates encourages employment programs to serve individuals who are job-ready. This is because training the job-ready invariably results in higher placement rates, and therefore higher profits to the training providers. As a result, recipients lacking recent job experience probably will not receive CWESTA training where this reimbursement mechanism is used.

We also showed in Chapter 2 that providing employment services to individuals who lack recent job experience--that is, those who are not the job-ready--results in the largest income gains.

Therefore, to ensure that CWESTA training is provided to individuals who are likely to benefit most from such training, we recommend the enactment of legislation modifying the program's reimbursement mechanism so that increases in recipient income--not placement rates--is the basis for reimbursing training providers.

Need to Review Current Supported Work and Job Placement Programs. Research completed to date finds that the cost of supported work services exceeds the increases in participant earnings and grant savings attributable to these services. Thus, as shown in Table 3, the provision of supported work services is not a cost-effective means for enhancing the earnings of AFDC recipients. Table 3 also indicates that job placement services are not cost-effective, for the same reasons.

In 1983-84 the state spent $9.3 million from the General Fund for programs providing supported work and job placement services. The state's supported work pilot cost $900,000 in 1983-84 ($300,000 General Fund and $600,000 in federal funds). In addition, the state spent $9.0 million from the General Fund on job placement services provided through the Job Agent

and Service Center programs. The services provided by these two programs are available to both AFDC recipients and other "economically disadvantaged."

Not only do the research findings cited earlier in this chapter cast doubt on the cost-effectiveness of supported work and job placement services; past evaluations of the programs offering these services in California also indicate that they are not cost-effective means of helping individuals find jobs. A 1976 EDD study of the Job Agent program, for example, concluded that the role of the job agent tended to resemble that of an intensive placement specialist--a role which "cannot be considered cost-effective." A Department of Finance study of the effectiveness of job agents conducted in 1981 concluded that the agents do not "have a predominantly difficult-to-place caseload, as the program intends that they should."[1] Similar evaluations of the Supported Work program indicate that the services are not helping AFDC recipients find jobs in a cost-effective manner. In a 1982-83 evaluation of the program, EDD concluded that the "costs to operate the program exceeded the benefits" of the services to recipients and the state.[2]

Substantial changes have been made to both the Job Agent and Supported Work programs since these evaluations were conducted. As a result, we are uncertain as to the effectiveness of these programs at the present time. Therefore, we believe an intensive evaluation of the effectiveness of these programs is warranted. Accordingly, we recommend

1. California State Department of Finance, The Job Agent Program (October, 1981).
2. Employment Development Department, Welfare Employment Programs: 1982-83 Report to the Legislature.

EDD conduct in-depth evaluations of the Job Agent, Service Center, and Supported Work programs in order to determine whether these programs provide cost-effective services to AFDC recipients and other economically disadvantaged persons. We further recommend that the department also determine the relative effectiveness of these services compared to job search assistance, as well as on-the-job and other training services.

CHAPTER IV

WHAT ROLE SHOULD LOCAL LABOR MARKET CONDITIONS PLAY IN THE STATE'S WIN STRATEGY?

Local WIN programs do not operate independently of the local economic and political environment. This chapter discusses two factors that, at the local level, can affect the success of employment and training services furnished to AFDC recipients under the WIN program: (1) support of the local government and (2) local economic conditions.

Support of Local Government is Essential To a Coordinated WIN Strategy

The success of the WIN program is heavily dependent on the support of local officials, for two reasons. First, local governments currently design Job Training Partnership Act (JTPA) programs that provide employment services to AFDC recipients. Second, local government opposition to certain types of employment programs can impair their operation and effectiveness.

Local Governments Currently Design Employment Programs. Under the JTPA, local government and business officials design training programs that provide services to economically disadvantaged individuals, including AFDC recipients. These officials also set priorities for spending JTPA funds, determine the types of services to be provided, and approve the administrative structure used in delivering these services.

Because the JTPA program began only recently, it is too early to evaluate the effectiveness of the services it provides to AFDC recipients. Nevertheless, our program reviews have identified several problems with the

design of local JTPA programs. First, local governments generally are providing employment services to job-ready candidates. This is because JTPA provides financial awards to programs with high placement rates. As discussed in Chapter 3, the use of placement rates as a performance measure encourages program managers to target services on recipients who are job-ready and discourages them from training AFDC recipients who would benefit the most from such training (those who lack recent job experience).

Second, in most communities there is no formal coordination between the services provided by local WIN offices and JTPA programs. As a result, AFDC recipients who desire JTPA training must take the initiative themselves by going to JTPA offices. The local JTPA staff then assesses the individual for needed services, even though the WIN program may already have determined that the person does not need training in order to find a job. The DSS advises us that it has no plans to increase the coordination between the WIN program and JTPA.

Local Government Opposition Can Hinder Smooth Program Implementation. The second reason why coordination at the local level is important is that opposition by the counties can impair the smooth operation of certain types of programs, such as mandatory work experience. Two work experience programs implemented in California in 1972 and 1982 illustrate the importance of community support. In 1972, California began the Community Work Experience program (known as CWEP), in spite of opposition from welfare rights and community groups, as well as from many county governments. This opposition resulted in uneven implementation and court challenges, causing the program to never really get off the ground. According to EDD, "Opposition in some counties designated for CWEP was

reflected in limited participation, or refusal to participate, by the counties and local government jurisdictions." In some counties, strong opposition meant that "getting CWEP assignments in any public agency was very difficult."[1]

In contrast, the demonstration work experience program initiated in San Diego for AFDC applicants was begun at the request of the county. Moreover, the county paid for half of the work experience program's administrative costs, with the federal government paying the other half. Not surprisingly, the San Diego project, unlike the earlier program, has been implemented reasonably smoothly and quickly.

Conclusion. We believe that state and local coordination of WIN and JTPA services is essential if the impact of these services in terms of increasing participant earnings and reducing AFDC dependency is to be maximized. There are two major reasons why coordination is essential. First, coordination ensures that both levels of government are working towards the same goals. Second, coordination between the WIN and JTPA programs offers an opportunity to eliminate potential duplication of services.

Coordination could be facilitated through formal agreements outlining the duties of the state and local entities in implementing their employment programs. Absent these agreements, state and local strategies probably will differ significantly, thereby blunting the effectiveness of the WIN and JTPA services provided to AFDC recipients. Furthermore, under a joint agreement, the WIN program could agree to assess recipients for services and provide needed supportive services. In exchange, the JTPA

1. Employment Development Department, Final Report on the Community Work Experience Program (April 1976).

provider would agree to train AFDC recipients only if designated for training by the WIN program. Such an agreement would help eliminate potential duplication and ensure both the WIN and JTPA programs followed the same targeting strategy. Without explicit coordination, recipients could be assessed for services by both programs.

In order to facilitate coordination of employment services, and thereby enhance the overall effectiveness of these services, we recommend the enactment of legislation requiring local WIN offices to enter into formal agreements with local JTPA programs calling for (1) AFDC recipients lacking recent job experience to be given the highest priority for employment and training services furnished by both programs and (2) elimination of those intake, assessment, and training activities that are duplicative.

State's Strategy Must Consider the Effects of Local Economic Conditions

Research indicates that local economic conditions significantly influence the success of the WIN program in helping AFDC recipients find jobs. Specifically, the supply of, and competition for, jobs in occupations suited to the skills of AFDC recipients are major factors in the success of local WIN programs. One study cited the following three variables as important factors affecting the success of local WIN programs:

- The Presence of Low-Wage Industries. Since AFDC recipients often have few skills, low-wage industries--those hiring low-skill workers--are a major source of jobs for AFDC recipients. Fewer low-wage jobs means fewer AFDC recipients are placed in jobs by the WIN program.

- The Size of the Local Poverty Population. Larger numbers of poor people result in increased competition for available low-wage jobs. Increased competition for jobs means fewer successful placements under the WIN program.
- The Rate of Local Employment Growth. Local economic growth can increase job opportunities for AFDC recipients, both directly and indirectly. Local economic growth can create new job openings directly for AFDC recipients to the extent that new jobs are compatible with the skills of such recipients. Economic growth also can create job opportunities indirectly for AFDC recipients by permitting workers with the required skills to move up to better jobs. As these workers advance, they leave ground-floor employment opportunities for the less advantaged job seeker, such as AFDC recipients.[1]

These findings suggest that the availability of jobs suited to the skills of AFDC recipients is an important ingredient of a successful WIN program. But what happens when there are few such job opportunities in a given area? Research conducted to date indicates that during times of high unemployment, the number of jobs available for AFDC recipients falls sharply. One study concluded that high unemployment reduces the effectiveness of WIN in helping AFDC recipients find jobs.[2]

1. Mitchell, J, Mark L. Chadwin, and Demetra S. Nightingale, Implementing Welfare-Employment Programs: An Institutional Analysis of the WIN Program (Washington, D.C.: Urban Institute, as cited in Evaluation Design Assessment of Work-Welfare Projects [Berkeley, California: Berkeley Planning Associates, 1980]).
2. Pacific Consultants, The Impact of WIN II: A Longitudinal Evaluation (Berkeley, California, 1976).

Increase Local Autonomy Over the Types of Services Provided Under WIN. The DSS has no plans to alter its WIN strategy in order to accommodate local economic conditions. Instead, the DSS plans to require AFDC-U recipients to participate in job search workshops and a subsequent supervised job search, regardless of how many suitable jobs are available locally. Local WIN mana ers will have no authority to alter the types of services provided to participants. This authority will be retained by DSS' central office in Sacramento.

We conclude, however, that teaching job search skills to AFDC recipients when there are few job openings in the local labor market does not make sense for most recipients. In fact, asking long-term AFDC recipients to search for jobs when few jobs exist in their local area may be counter-productive by reinforcing their own feelings of inadequacy. As one study concluded, "While it is always true that turnover and firm-specific expansion will create some job openings, even in the worst of times, it is important to recognize just how severely limited job opportunities become for the disadvantaged in times of recession."[1]

Given this, we believe it is essential that the state's employment and training strategy be flexible enough to adjust to changes in local labor market conditions. For example, in times when few suitable job openings exist, the state's strategy should de-emphasize job search training and instead emphasize attaining more salable skills. During periods of depressed labor demand, job search services could be limited only to those individuals who have skills for which there is a demand in the current job market, but who have not worked recently. In summary, it is a waste of

1. Pacific Consultants, 1976.

resources to require a job search by people who have virtually no chance of finding a job.

As job search is de-emphasized, there could be an increased emphasis on skill training in those occupations for which there is a demand in the labor market. Increasing the amount of skill training provided under WIN would (1) reduce the size of the low-skill population in the local area and (2) focus the employment goals of AFDC recipients on jobs outside the low-wage segment of the labor market that are available to recipients with a moderate amount of training.

Altering local programs to accommodate changing economic conditions would require that local program administrators be vested with responsibility for, and authority over, the types of employment and training services provided to AFDC recipients. This responsibility is necessary because an understanding of local labor markets--that is, what jobs are currently available and what jobs will be available in the future--is essential if an effective employment and training strategy is to be implemented. Directing the mix of services--job search or skill training--cannot be done by the central DSS staff in Sacramento.

Therefore, to maximize the effectiveness of WIN services, we recommend enactment of legislation giving local WIN managers responsibility for determining the types of services provided locally. We further recommend that the proposed legislation require DSS to develop guidelines and procedures providing local managers with the information needed to determine the appropriate types of services to provide under different economic conditions.

CHAPTER V

HOW CAN THE STATE ACHIEVE REDUCED WELFARE DEPENDENCY AND INCREASED GRANT SAVINGS?

In this chapter, we identify a strategy designed to maximize the positive impact of employment and training services on AFDC recipients. This strategy is based on the findings reported in previous chapters.

As we discussed in Chapter 1, the WIN program can be administered to achieve two different goals: (1) to reduce welfare dependency by increasing the earning power of AFDC recipients and (2) to reduce AFDC grant expenditures. The eight demonstration programs that form the basis for this report indicate that both goals are not automatically achieved by a single strategy. Instead, the results of these demonstrations suggest that a two-tiered strategy is needed to achieve these goals at the lowest possible cost.

EDD's Estimate of WIN-Related Grant Savings

The DSS believes that its current strategy of providing WIN job search services to newly registered AFDC-U recipients maximizes grant savings, and at the same time helps the maximum number of AFDC recipients escape welfare dependency. The EDD estimates that WIN services resulted in grant savings totaling $220 million in 1982-83. Thus, according to EDD, total AFDC payments would have been 7.6 percent higher in 1982-83 had it not been for the WIN program.

We believe that EDD has overestimated the impact of the WIN program on the AFDC caseloads, for two reasons. First, EDD's estimate gives the WIN program credit for the jobs found by even those WIN participants who

found jobs without the help of the WIN program. For example, the EDD considers a WIN participant receiving placement assistance to be a successful placement regardless of whether the individual's job resulted from a WIN referral or from the individual's own independent job search. In this way, the WIN program receives credit for any WIN participant who finds a job. Since a large number of WIN participants would have found jobs in the absence of the WIN program, EDD's estimate of grant savings is too high.

Second, EDD's estimate of WIN savings is too high because it assumes that the participant would have remained on AFDC for a period of time equal to the average stay on aid for all AFDC recipients. However, as we discussed in Chapter 2, the DSS targets WIN services on AFDC recipients who are not like the average recipient. These recipients invariably have recent job experience. Because WIN participants have recent job experience, they are more likely to stay on aid for periods of time that are shorter than those for the average AFDC recipient.

Two-Tiered Approach Needed

We believe the results of the empirical research reviewed for this report provide a relatively clear picture of the most efficient way for the WIN program to achieve its twin goals of reducing welfare dependency and AFDC program costs. First, job search services and skill training services should be provided to individuals who lack recent job experience (most often these are AFDC-FG recipients). The empirical work clearly indicates that voluntary job search services and skill training services result in increased income for AFDC recipients who have no recent job experience.

We do not know, however, whether increasing the income of these AFDC recipients will translate into grant savings. The research results that we reviewed found no significant relationship between increased earnings and reduced grant expenditures. This is primarily because at the time these studies were conducted, AFDC recipients could exempt indefinitely $30 of earned income plus one-third of the remainder when calculating the AFDC grant. Recent federal changes that limit the $30-and-one-third deduction to a specified period of time may significantly increase the chances that employment and training services will result in AFDC grant savings.

On the other hand, reducing the length of time during which the allowed deductions are available may also reduce the incentive for recipients to seek a job by decreasing the benefits to recipients from working. Unfortunately, we have no data to help answer the question of how the new federal rule changes the work incentives of AFDC recipients.

Second, the studies suggest that mandatory work experience programs should be targeted on recipients with recent job histories. These studies indicate that grant savings result from requiring newly registered AFDC-U recipients (who, by definition, were recently employed) to participate in work experience programs. The studies also indicate that job search training should not be a component of a work experience program. This is because the savings from the Work Experience program result not from increases in income but from the sanctions applied against AFDC-U families that refuse to participate in the program. Moreover, it is not the job search component of the San Diego program that produces grant savings, but the 13-week work requirement.

Grant savings resulting from sanctioning activities raises an important policy issue: what happens to AFDC-U families that are sanctioned? Unfortunately, we have no data on the well-being or behavior of these families. There are a number of possible outcomes that could result from sanctioning. First, sanctioning could, in effect, force a member of the family to get a job. In this case, sanctioning would achieve a positive result. Second, the family could turn to family and friends for support. Third, the father could leave the family so that the wife and child would qualify for AFDC-FG. Clearly, encouraging family breakups is not a positive outcome.

Can One Strategy Achieve the Twin Goals Of the WIN Program?

The research findings reviewed for this report suggest that the two goals of the WIN program are not necessarily complimentary. Specifically, certain types of employment services (job search and skill training) increase participant earnings, but do not seem to generate grant savings. Other types of employment services (mandatory work experience) create grant savings, but do not increase a participant's earning capabilities.

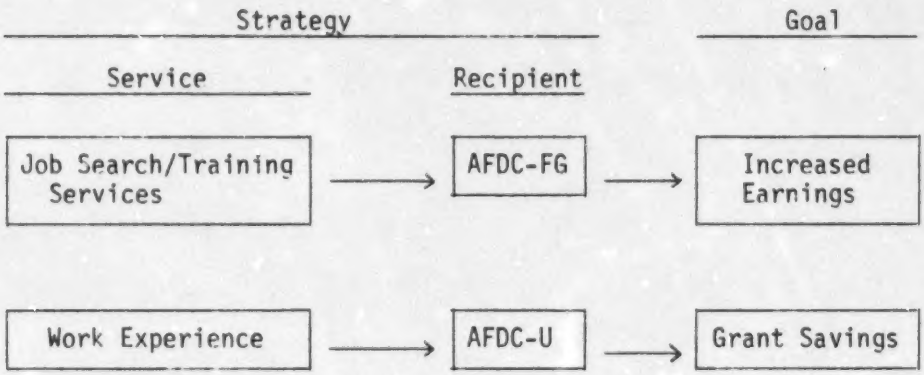
The available evidence also suggests that different types of services are successful with different categories of AFDC populations. Skill training and job search activities are most effective for AFDC-FG recipients who have weak ties to local labor markets. Work experience is most effective for AFDC-U recipients, partially because of the rules governing the sanctioning of AFDC-U families.

Thus, we have a remarkably clear division between two goals, two groups of recipients, and two types of services, as shown in Chart 3. This chart suggests that the state should pursue different strategies in order to

achieve the goals of increased earnings and grant savings. Providing job search services to AFDC recipients who lack recent job experience will result in decreased dependency on AFDC. Requiring AFDC recipients who have recent work experience to participate in mandatory work experience will generate significant amounts of savings to the AFDC program.

Chart 3

Increased Earnings and Grant Savings Do Not Result from the Same WIN Strategy



Should the State's Strategy Maximize Grant Savings Resulting from WIN Activities?

Should AFDC grant savings be given a high priority in designing the state's WIN strategy? We believe that while the achievement of grant savings is a legitimate goal of the WIN program, it may not be realistic to expect training and job search services to yield such savings in the short term. To the extent this is the case, we believe increasing recipient earnings should command a higher priority. Over time, however, we believe that recommendations made in previous chapters of this report will maximize the impact of current training resources in helping recipients become self-sufficient.

Maximizing grant savings from mandatory programs, such as work experience, is also a legitimate strategy. However, we cannot recommend at this time that the state institute mandatory work experience programs, for two reasons. First, we do not know what happens to families terminated from aid due to program-related sanctions. If sanctions force families to break up in order to make the wife and child eligible for AFDC-FG, these sanctions do not support either goal of the WIN program.

Second, the preliminary results from the San Diego work experience program fail to show that the services provided by the program are cost-effective. The program's cost is greater than the grant savings realized from sanctions. We await the final report on the San Diego program before drawing definite conclusions on the program's cost-effectiveness.

APPENDIX A

THE AFDC AND WIN PROGRAMS

The WIN program is designed to increase the incentive for AFDC recipients to find a job. The AFDC program itself, however, provides both incentives and disincentives for recipients to find work. Although a close examination of the work incentive features of the AFDC program falls outside the scope of this paper, it is important to understand the major ways in which the AFDC program affects the incentives for clients to search for jobs.

The AFDC program rules are established by both the federal and state governments. As a result, neither level of government fully controls the design of the AFDC program nor the incentives for recipients to seek employment. The major program features affecting work incentives are described below. Design factors controlled by the state are listed first; those controlled by the federal government are listed second.

Features Under State Control

1. Size of AFDC Grants. The size of the AFDC grant determines the wage an AFDC parent must earn in order to be better off by working than by receiving AFDC. This is referred to as the "break-even" point. The higher the AFDC grant level, the higher the parent's wage needs to be in order for him or her to break even. Thus, in theory, providing relatively high AFDC grants creates a disincentive for AFDC recipients to seek work. Empirical research, however, has not clearly demonstrated that this disincentive has a substantial effect on recipients' efforts to search for work.

2. Need Standard. Recipients are ineligible for aid under the AFDC program if the family's gross income exceeds 185 percent of the need standard. The need standard is the state's assessment of the amount of money required to provide for a family's basic needs (for example, shelter, food, clothing, etc.). As a result, the higher the need standard, the higher the income the family can earn and still remain eligible for AFDC and related benefits, such as Medi-Cal. In theory, increasing the need standard (without increasing the AFDC grants) would increase incentives for recipients to work because a higher need standard would increase the amount of income a family could earn and still remain eligible for AFDC and Medi-Cal.

3. Employment Search/Work Experience Programs. The federal Omnibus Reconciliation Act of 1981 established two employment programs that states can implement at their option: (a) employment search and (b) work experience. Employment search programs are only loosely defined in federal law. In general, employment search programs must require all mandatory WIN registrants to actively seek employment for a specified period of time. States also can require participants to contact a certain number of employers during that specified period. To qualify for federal funding, state employment search programs must (a) be implemented statewide and (b) serve all mandatory WIN registrants.

The DSS proposes to make employment search a component of the state's WIN demonstration program. The state, however, will not qualify for federal funding under the Employment Search program because DSS does not plan to require all mandatory WIN registrants to participate in the program, as required by federal law.

Under the Work Experience program, mandatory WIN participants are required to work in a public or nonprofit job for a specified number of weeks in exchange for their AFDC benefits. Participants are required to work the lesser of (a) 32 hours a week or (b) the number of hours derived by dividing the recipient's monthly grant amount by the minimum wage. In addition, one day per week is set aside so that a participant can search for a regular paying job. State work experience programs need not be statewide to qualify for federal funds. The program, however, must serve all recipients without children under the age of three so long as child care is available.

Presumably, the Employment Search and Work Experience programs increase the incentives of AFDC recipients to find employment by requiring them to look for a job. To our knowledge, the effectiveness of employment search programs in helping AFDC recipients to find jobs has not been evaluated. The effectiveness of work experience programs is discussed in Chapter 3.

Features Controlled by Federal Law

1. Thirty Dollar-and-One-Third Deduction. Under federal law, AFDC families are permitted to deduct the first $30 plus one-third of any remaining earned income from total family income when calculating AFDC benefits. Presumably, this deduction creates a positive incentive for recipients to work because it permits families to realize a higher income by working than they would if they only received the AFDC grant. This is because for every additional dollar earned by the family, AFDC benefits are reduced by only 65 cents, instead of $1. The $30 deduction is limited to the first 12 months of employment. The remaining earned income deduction

is limited to the first 4 months of employment and is applied to earnings only after all other deductions to income are made.

2. Work-Related Deductions. Federal law permits AFDC recipients who work to deduct work-related expenses from their earned income when calculating their benefits. Work-related expenses include transportation and child care expenses, as well as the costs of any tools or uniforms necessary for working in a specific job. Individuals who are working are able to deduct $75 per month for work-related expenses. In addition, recipients are able to deduct up to $160 per child per month for child care expenses. Presumably, these deductions increase the incentive for AFDC recipients to seek employment by allowing them to work without having to pay for work-related expenses.

3. Work Limitations for AFDC-U Recipients. Under federal law, an AFDC-Unemployed Parent (AFDC-U) recipient can only work 100 hours per month and still remain eligible for aid. As a result, recipients are not able to receive aid while working in a full-time job (160 hours per month). It is possible that this provision encourages recipients to work part-time rather than full-time, especially for those months when the $30-and-one-third deduction is available. This requirement also introduces a quirk into the AFDC-U program: for a recipient to benefit from taking a full-time job, the job must provide an income greater than the grant level plus the in-kind value of Medi-Cal benefits. Because the value of the AFDC-U grant and Medi-Cal benefits may be higher than the income many individuals can obtain through full-time employment, the 100-hour limitation may actually discourage AFDC-U recipients from seeking a job. Without this limitation, earned income from a full-time job could simply reduce a family's benefits, not make it completely ineligible for aid.

4. WIN Participation. Federal law requires most recipients of AFDC-U and many AFDC-FG recipients to register for the WIN program. Certain AFDC recipients are exempt from WIN participation. Specifically, the head of the household of an AFDC-FG family is exempt from the WIN program if the youngest child is under six years of age. This rule exempts more than 50 percent of all female AFDC-FG recipients from the WIN requirement. In addition, all recipients can be exempted for the following reasons:

- Child care, transportation, or other supportive services necessary for a recipient's participation are not available.
- WIN offices are more than one hour's commuting time away from a participant's home.
- Participation in the WIN program would impair an individual's physical or mental health.

Presumably, requiring participation in the WIN program increases recipient job search efforts, thereby increasing the likelihood of finding a job.

APPENDIX B

EVALUATIONS OF EMPLOYMENT AND TRAINING SERVICES UNDER THE WIN PROGRAM

Job Placement

Ketron, Inc., The Differential Impact of the WIN II Program (Wayne, Pennsylvania, 1979).

Job Search Training

Manpower Development Research Corporation, Job Search Strategies: Lessons from the Louisville WIN Laboratory (New York, 1983).

Skill Training: Estimates shown in Table 3 were derived from the Congressional Budget Office report.

Ketron, Inc., The Differential Impact of the WIN II Program (Wayne, Pennsylvania, 1979).

Pacific Consultants, The Impact of WIN II, A Longitudinal Evaluation (Berkeley, California, 1976).

Congressional Budget Office, CETA Training Programs: Do They Work for Adults? (Washington, D.C., 1982).

Supported Work: Estimates shown in Table 3 were derived from the Manpower Development Research Corporation report.

Manpower Development Research Corporation, The Impact of Supported Work on Long-Term Recipients of AFDC Benefits (New York, 1981).

Stanley Masters, "The Effects of Supported Work on the Earnings and Transfer Payments of its AFDC Target Group," Journal of Human Resources (Volume XVI, No. 4).

Work Experience

Barry Friedman, et. al., An Evaluation of the Massachusetts Work Experience Program (Brandeis University: Waltham, Massachusetts, 1980).

U.S. Department of Agriculture, Third Interim Report to Congress, Foodstamp Workfare Demonstration Projects (Washington, D.C., 1982).

Manpower Development Research Corporation, Preliminary Findings from the San Diego Job Search and Work Experience Demonstration (New York, 1984).